

REPORT OF  
FINANCIAL EXAMINATION  
LAND TITLE INSURANCE COMPANY OF ST. LOUIS



AS OF  
DECEMBER 31, 2002  
STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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October 10, 2003  
Des Peres, Missouri

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chairman, (EX 4) Financial Condition Subcommittee, NAIC

Honorable Sally McCarty, Commissioner  
Indiana Department of Insurance  
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Land Title Insurance Company of St. Louis**

hereinafter referred to as such or as the "Company." The Company's home office is located at 12360 Manchester Road, Des Peres, Missouri 63131, telephone number (314) 821-5515. This examination began on August 28, 2003 and concluded on October 10, 2003.

## **SCOPE OF EXAMINATION**

### **Period Covered**

The last financial examination of the Company was made as of December 31, 1999, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2000, through December 31, 2002, and was conducted by an examiner from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions or events occurring subsequent to December 31, 2002.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditor, PricewaterhouseCoopers LLP, were made available to the examiners. Reliance was placed on the independent auditors' evaluation of the effectiveness of the Company's system of internal controls. Standard examination procedures were modified as deemed appropriate under the circumstances.

## **Comments - Previous Examination**

The following discussion outlines the issues raised in the previous examination report, the Company's response to those issues and the present result of those responses.

### *1. Comment: Stock Certificates*

The Company has not issued new shares of stock as part of the August 1996 capital restructuring. It is recommended that the Company's old stock certificates be called and that new certificates be issued representing the actual number of shares outstanding.

#### *Company Response:*

A new stock certificate representing 10,000 shares which represents all outstanding shares of stock was issued to First American Title Insurance Company as of January 5, 2001.

#### *Current Findings:*

New stock certificates were issued reflecting the ownership by First American Title Insurance Company.

### *2. Comment: Land Title Company Premium Retention*

It is recommended that the Company formally amend its agency agreement with Land Title Company to reflect the correct percentage of premiums retained by the agent.

#### *Company Response:*

The subject Agency Agreement was formally amended on December 31, 2000 between Land Title Insurance Company of St. Louis and Land Title Company.

*Current Findings:*

A new agreement that adequately addressed the percentage retained was executed.

*3. Comment: Filing of Agency Agreement With Land Title Company*

The Company is directed to submit the Agency Agreement to the Missouri Department of Insurance for approval pursuant to Section 382.195 RSMo.

*Company Response:*

Although we do not believe the agency agreement falls within the provisions of Section 382.195, we have filed this agreement on January 5, 2001.

*Current Findings:*

The Agency Agreement has been submitted and approved.

*4. Comment: Reinsurance Premiums*

It is recommended that the Company settle the outstanding balance with its parent and properly report premiums in Schedule F of future Annual Statement filings.

*Company Response:*

All reinsurance premiums were paid on December 31, 2000.

*Current Findings:*

Prior reinsurance premiums were brought current; however, reinsurance premiums for 2001 and 2002 were not paid until April 3, 2003. The 2003 premiums were paid on June 1, 2003.

*5. Comment: Loss Payments/Reinsurance Recoveries*

The Company does not report gross losses and loss adjustment expenses paid by the Company or reinsurance recoveries in the Operations and Investment Exhibit, Part 3A of its Annual Statement. It is recommended that the Company complete this and all other Annual Statement exhibits in accordance with NAIC Annual Statement Instructions.

*Company Response:*

This will be complied with on all future filings.

*Current Findings:*

Gross losses and loss adjustment expenses paid or reinsurance recoveries were not reported in the Operations and Investment Exhibit, Part 2B ( Unpaid Losses and Loss Adjustment Expenses). In addition, some other Annual Statement exhibits were not correctly completed. See Accounts and Records on page 19 for a discussion of the errors in the Annual Statement.

*6. Comment: Confirmation of Reserve Credit*

It is recommended that the Company annually submit a letter from FATICO's independent actuary confirming that the Company's statutory premium reserve and other loss reserves are properly reflected in FATICO's Annual Statement. This letter may be accepted in lieu of filing a Statement of Actuarial Opinion of the Company.

*Company Response:*

A letter dated September 26, 2000 addressing this issue from First American Title Insurance Company's actuary was presented to the auditor during the exam. A like letter will be obtained in future years.



*Current Findings:*

A letter was prepared which indicated that the Company's reserves are reflected in the reserves of the parent company.

*7. Comment: Land Title Company Premiums*

It is recommended that the Company immediately implement a system that will ensure that premiums are charged to policyholders in accordance with risk rates filed with the Missouri Department of Insurance. Additionally, controls should be implemented to reconcile premiums per the *SMS* vision system (policy issuance system) with premiums posted to the *Datafaction* general ledger system.

*Company Response:*

Procedures are being implemented to enable compliance with this recommendation.

*Current Findings:*

The Company now uses the *FAST* policyholder information system. This system has an automatic interface with the *Datafaction* general ledger system. This has helped to ensure that rates are appropriately charged to policyholders.

*8. Comment: Land Title Company Simultaneous Issue Policies*

It is recommended that the Company implement a system to ensure that only an "examination fee" is charged to Land Title Company regarding simultaneous issue policies. Additionally, the Company should research this error, and all overcharges should be returned to Land Title Company.

*Company Response:*

Procedures are being implemented to enable compliance with this recommendation.

*Current Findings:*

Procedures are now in place to monitor the premium charge for simultaneous issue policies. Also, the Company instituted a repayment process to reimburse Land Title Company of St. Louis for the overcharges in the past.

*9. Comment: Land Title Company Policy Issuance*

It is recommended that the Company implement a control mechanism to ensure that Land Title Company policies are physically written within a reasonable amount of time after the date that they are issued.

*Company Response:*

Procedures are being implemented to enable compliance with this recommendation.

*Current Findings:*

Policies are generally provided to policyholders in a timely manner now.

## **HISTORY**

### **General**

Land Title Insurance Company of St. Louis was incorporated in the state of Missouri on December 7, 1901, as the Chomeau and Dosenbach Land Title Company and was capitalized with 1,000 shares of common stock with a par value of \$100 per share. On May 1, 1905, the name was

changed to the St. Louis County Land Title Company and on April 11, 1928, the name was changed to its present name of Land Title Insurance Company of St. Louis.

On May 12, 1926, the capital account was increased to \$500,000 by the issuance of 2,000 additional shares of common stock and 2,000 shares of preferred stock, both with par values of \$100 per share. Subsequently, all shares of preferred stock were retired leaving a capital structure of 10,000 shares of common stock issued and outstanding with a par value of \$100 per share.

First American Title Insurance Company (FATICO) acquired controlling interest in Land Title Insurance Company of St. Louis on September 18, 1980. Additional capital contributions by FATICO over the next several years ultimately produced contributed capital totaling \$1,130,796.

The Company is licensed by the Missouri Department of Insurance under Chapter 381 RSMo (Title insurance law) to write title insurance as set forth in its Certificate of Authority.

### **Capital Stock**

All 10,000 shares of common capital stock are issued and outstanding. All shares are owned by First American Title Insurance Company.

### **Dividends**

No dividends have been declared or paid since the Company was acquired by FATICO.

On January 8, 2001, the board of directors approved a resolution establishing a dividend payment schedule. That resolution requires that the quarterly net income of Land Title Insurance Company of St. Louis be paid to the shareholder in the form of a dividend. Although, no dividends have yet been paid, this resolution could cause the Company to violate Chapter 381.078 RSMo, "Dividends, authorized when." This statute requires prior written approval from the

Director of the Department of Insurance before any dividends can be paid. It is recommended that the board of directors revise this resolution to incorporate the provisions of the applicable statute.

## **Management**

The board of directors elected at the annual meeting of the stockholder and serving at December 31, 2002, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Robert G. Meckfessel Chesterfield, Missouri	Chairman of the Board Land Title Insurance Company of St. Louis
Craig I. DeRoy Rolling Hills, California	Senior Executive Vice President and General Counsel First American Corporation
Nancy A. Eisenschiml St. Louis, Missouri	Vice President and Regional Counsel First American Title Insurance Company
Donald P. Kennedy Santa Ana, California	Chairman of the Board First American Corporation
Parker S. Kennedy Santa Ana, California	President First American Corporation
Thomas A. Klemens San Clemente, California	Senior Executive Vice President and CFO First American Corporation
Rebecca J. Carpenter St. Louis, Missouri	Secretary Land Title Insurance Company of St. Louis
Peter M. Mayer Clayton, Missouri	Executive Vice President and Chief Counsel Land Title Insurance Company of St. Louis
Joan M. Thomas St. Louis, Missouri	Vice President and Chief Escrow Officer Land Title Company

Peter M. Mayer resigned from the board effective December 31, 2002. The board

subsequently appointed Cheryl Schnell to fill the unexpired term.

The officers serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Office</u>
Melville R. Bois	President
Rebecca J. Carpenter	Executive Vice President and Secretary
James H. Barrett	Executive Vice President
Scott A. Apelt	Treasurer
Kathleen Elzea	Assistant Secretary
Mark Archuleta	Chief Financial Officer
Robert G. Meckfessel	Vice President
Joan M. Thomas	Vice President
Nancy A. Eisenschiml	Vice President
Stewart A. Schneider	Vice President
Richard M. Hansen	Vice President
Chris E. Elliott	Vice President
Adolph G. Kraus	Vice President
Michael J. Rooney	Vice President

The Company has no established committees.

### **Conflict of Interest**

The Company has a policy whereby directors, officers and key employees are required to sign a conflict of interest statement each year. Conflict of interest statements for the period under examination were reviewed with no material conflicts of interest noted.

### **Corporate Records**

A review was made of the articles of incorporation and bylaws of the Company for the period under examination. No material changes were made to either the articles of incorporation or the bylaws during the examination period.

The minutes of the board of directors were reviewed for the period under examination.

The minutes appeared to properly document and approve corporate events and transactions. The examination report as of December 31, 1999, was reviewed and accepted or approved by all directors on February 12, 2001.

The board of directors was not complying with two provisions of the bylaws. First, Article II of the bylaws requires the annual stockholder meeting to be held in April. The current practice is to hold the annual stockholder meeting in September. Also, Article IV states that the board shall elect two executive vice presidents and appoint two additional vice presidents. The Company reported two executive vice presidents and eight additional vice presidents. It is recommended that the board of directors take action to correct both of these inconsistencies with the bylaws.

### **Acquisitions, Mergers and Major Corporate Events**

There were no acquisition, mergers or major changes since the previous examination.

### **Surplus Debentures**

As of December 31, 2002, the Company had no surplus debentures issued or outstanding.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

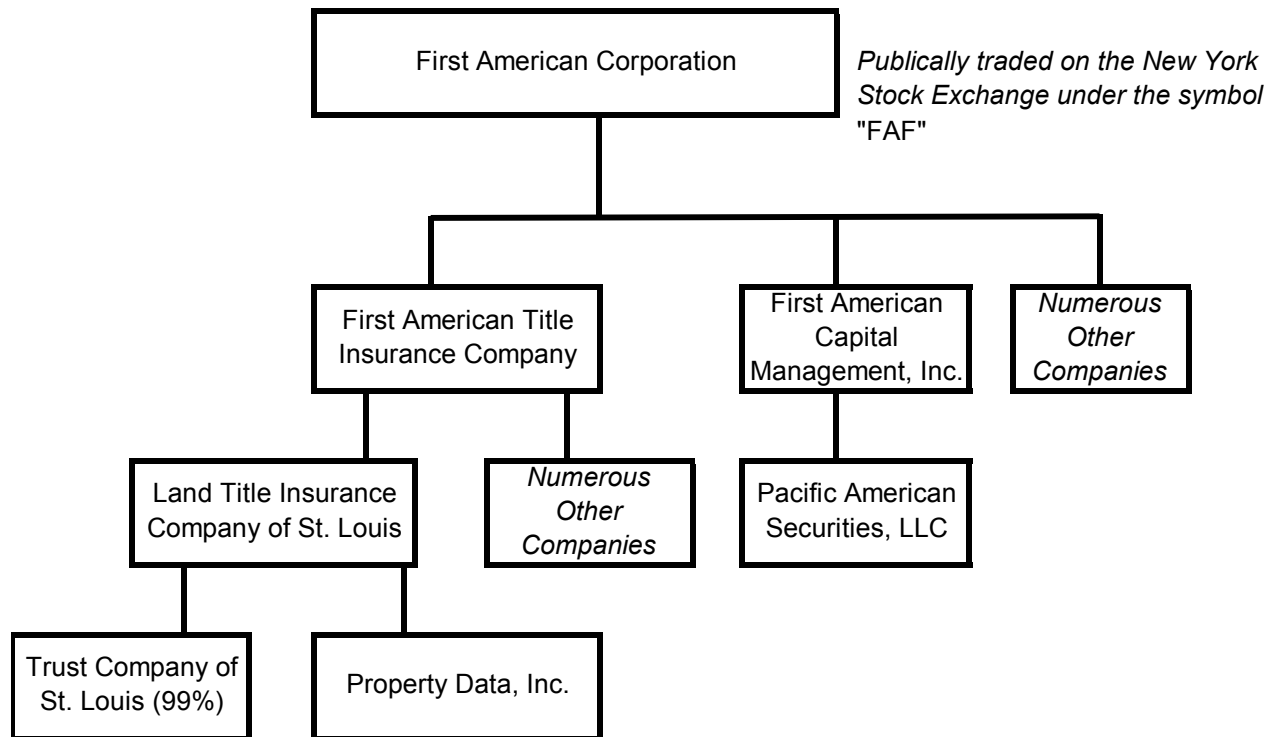
The Company is a member of an Insurance Company Holding System as defined by Section 382.010 RSMo (Definitions). A Holding Company Registration Statement was filed by First American Corporation (FAC) on behalf of its insurance subsidiaries which included Land

Title Insurance Company of St. Louis.

### Organizational Chart

The following organizational chart depicts the relevant portions of the insurance holding company system of which Land Title Insurance Company of St. Louis is a member. First American Corporation (FAC) owns 100% of First American Title Insurance Company (FATICO), a California domiciled title insurance company, which, in turn, owns 100% of Land Title Insurance Company of St. Louis.

Land Title Insurance Company of St. Louis owns 100% of Property Data, Inc., which operates and maintains the Company's title plant. The Company also owns 99% of the Trust Company of St. Louis County, an inactive financial institution.



## **Intercompany Agreements**

### Tax Allocation Agreement

A tax allocation agreement with its ultimate parent, FAC, and other members of the holding company system was signed by Land Title Insurance Company of St. Louis on January 3, 1995. The agreement calls for the allocation of federal income tax expenses on the basis of the percentage that the separate tax liability of each member bears to the total tax liability of all members.

### Intercompany Expense Allocation Agreement

Land Title Insurance Company of St. Louis pays First American Title Insurance Company for computer services, payroll and other functions which FATICO provides for the Company. The Missouri Department of Insurance approved a Cost Sharing Agreement outlining the above relationship on August 28, 1997. Direct expenses are allocated to Land Title Insurance Company along with an underwriting fee of 5% of gross premiums written.

### Reinsurance and Cross Indemnification Agreements

The Company has a reinsurance agreement with First American Title Insurance Company. The Company also participates in a cross indemnification agreement with several other affiliated entities. These agreements are discussed in further detail in the Reinsurance section of this report.

### Policy Issuing Agency Agreement

The Company entered into a contract on December 31, 2001 with Land Title Company of



St. Louis (LTC) whereby LTC serves as the insurance agency. Commissions are paid according to a schedule with varying amounts based on the size and types of policies written.

#### Investment Consulting Agreement

This agreement, signed on January 12, 2001, is between Land Title Insurance Company of St. Louis and First American Capital Management, Inc., (Advisor). This agreement governs the management of the investments held at Pacific American Securities, LLC (a subsidiary of First American Capital Management, Inc.) The Company pays the Advisor .35 basis points of the fair market value of assets managed, payable on a quarterly basis.

In 2002, the Company paid \$7,381 in fees. At December 31, 2002, assets being managed consisted of four United States Treasury Bills and one money market mutual fund.

The agreement with First American Capital Management, Inc. was not filed with the Missouri Department of Insurance as required by Section 382.110 RSMo (Registration, form, contents, exempted matter). In addition, no custodial agreement with Pacific American Securities, LLC could be located. It is recommended that the board of directors obtain a custodial agreement with Pacific American Securities, LLC. That agreement should contain, among other things, the indemnification requirements for custodial agreements found in the Financial Condition Examiners' Handbook. That agreement along with the investment consulting agreement with First American Capital Management, Inc. should be filed with the Missouri Department of Insurance in accordance with Section 382.110 RSMo.

### Lease Agreement

The Company has a lease agreement with Land Title Company of St. Louis where Land Title Company leases computers, furniture and other office equipment from the Company. The Company received \$105,000 for this arrangement during 2002. There was no record that the agreement had been filed with the Department. It is recommended that the Company file this agreement in accordance with Section 382.110 RSMo.

### **FIDELITY BOND AND OTHER INSURANCE**

First American Corporation and its affiliates, including Land Title Insurance Company of St. Louis, are named insureds, on a fidelity bond providing a limit of liability of \$15,000,000 per single loss and \$15,000,000 aggregate limit. The NAIC suggested minimum coverage for the Company is \$75,000.

The Company is a named insured on the following insurance policies:

<u>Type of Coverage</u>	<u>Coverage Limits</u>
<u>Auto Liability</u>	\$5,000,000 per accident
<u>General Liability</u>	\$2,000,000 aggregate
Products/Completed Operations	2,000,000
Personal & Advertising Injury	1,000,000
Each Occurrence	1,000,000
Damage to Rented Premises	500,000
<u>Excess/Umbrella Liability</u>	\$5,000,000 aggregate 5,000,000 per occurrence

Workers Compensation and Employer's Liability

Medical & Income Replacement	Statutory Limits
Employer's Liability Each Accident	\$1,000,000
Employer's Liability Disease Each Employee	1,000,000
Employer's Liability Disease Policy Limit	1,000,000

Property Insurance Building/Contents\*

Loss Limit	\$35,000,000
Business Income	5,000,000
Valuable Papers	5,000,000

\* \$100,000 deductible for each.

**EMPLOYEE BENEFITS AND PENSION PLAN**

Land Title Insurance Company of St. Louis has one direct employee who receives benefits similar to those offered to other employees of First American Corporation. A wide range of benefits is provided to those employees including: vacation, sick leave, holidays, group health insurance, disability, employee assistance program, First American Corporation stock purchase plan, a qualified defined benefit non-contributory retirement plan and a 401(k) plan.

**STATUTORY DEPOSITS**

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were deemed sufficient to meet the deposit requirements for the state of Missouri pursuant to Section 381.051.1 RSMo (Deposit of security with director):

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
United States Treasury Note	\$ 510,000	\$ 516,375	\$ 515,811

### Deposits with Other States

The Company does not have funds on deposit with other states.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed as a title insurer with the Missouri Department of Insurance under Chapter 381 RSMo (Title insurance law). The Company was licensed in Missouri and Minnesota at December 31, 2002, and has plans for obtaining a license in the state of Nebraska. The Company writes primarily in eastern and central Missouri. Insurance products are marketed through affiliated title companies along with other related title work and services.

### **Policy Forms and Underwriting**

Land Title Insurance Company of St. Louis underwrites its own policies and performs title searches using its own title plant. LTIC's title plant is maintained by its wholly owned subsidiary, Property Data Information (PDI).

The Company's policy forms are standard title insurance policy contracts available from the American Land Title Association (ALTA) of Washington, D.C. The Company has properly filed its policy forms with the Missouri Department of Insurance.

### **Advertising and Sales Materials**

Land Title Insurance Company of St. Louis markets its products primarily by personal contact with local real estate agents, attorneys, lenders and other real estate professionals.

**Treatment of Policyholders**

The Missouri Department of Insurance maintains a Market Conduct Section, which reviews this area. The Company's most recent Market Conduct examination was performed as of December 31, 1995, and filed as public document 1842-0696-TLE. No significant concerns were raised from the Market Conduct Section. The Company maintains a log to document and monitor complaints filed with the Missouri Department of Insurance. That log was reviewed and appeared to adequately document the complaints lodged against this company.

**REINSURANCE****Assumed**

None

**Ceded**

The Company has an agreement with its parent, First American Title Insurance Company, whereby 100% of losses are ceded. Assumption certificates are attached to all Company policies informing policyholders that First American Title Insurance Company reinsures all liability under the contracts. The Company pays a premium of \$10,000 per year for this arrangement.

The Company entered into a cross-indemnity agreement effective January 1, 1995, with the following related companies: First American Title Insurance Company; First American Title Insurance Company of Oregon; First American Title Insurance Company of Texas; Southwest Title and Trust Company; Mortgage Guarantee and Title Company; The Port Lawrence Title and Trust Company; and Massachusetts Title Insurance Company. Each party

is jointly and severally liable to indemnify each other for claims under title insurance policies issued after January 1, 1995 by any of the participating companies. Payments are made only if the original policy issuing company is financially unable to pay. Financial inability to pay is deemed to exist if the issuing company's liabilities exceed the assets, determined according to applicable statutory accounting principles. The amount of the indemnity under this agreement is limited to fifty percent of any party's property or business.

## **ACCOUNTS AND RECORDS**

### **General**

The Company uses several software packages to process business information. All the major systems are owned and maintained by the ultimate parent, First American Corporation. The *FAST* system is used to generate policies and maintain policyholder information. This web-based system is available to all employees with access restricted to their appropriate authority levels. The *FAST* system automatically interfaces with *Datafaction*, the general ledger and accounting software package. Claims are processed on a system called *CLASS*. This system is also integrated with *Datafaction*. The Company is in the process of developing and implementing an automated rating system called *WINGS*.

Several reporting errors were found in the December 31, 2002 Annual Statement. These included:

- The balance sheet required reclassifications from bonds to short-term investments and from cash and short-term investments to common stocks.

- Schedule E, Part 2 showed a deposit held on behalf of the state of Minnesota when it should have shown the only deposit being held on behalf of the state of Missouri. The total of all deposits reported in Schedule E did not agree with the total actually held.
- Gross losses and loss adjustment expenses paid or reinsurance recoveries were not reported in the Operations and Investment Exhibit, Part 2B (Unpaid Losses and Loss Adjustment Expenses).

It is recommended that the Company implement measures to ensure the Annual Statement is accurately completed in the future.

Intercompany balances are not settled in a timely manner. Payables to the parent company, resulting from the 1998 and 1999 federal income tax liabilities, were not settled until May 20, 2003. In addition, the December 31, 2002 payable to the parent had not been settled as of this report date. It is recommended that the Company settle its intercompany accounts in a timely manner.

The Company's disaster recovery plan was reviewed. This document was prepared by First American Corporation and appears to contain appropriate procedures for the Company to restore operations in an efficient manner following a disaster.

### **Independent Auditor**

PricewaterhouseCoopers, LLP performs the annual audit of the Company and the holding system of which it is a member.

### **Independent Actuary**

No independent actuarial opinion was made for the Company. However, the Missouri

Department of Insurance has accepted the Statement of Actuarial Opinion for First American Title Insurance Company. The actuarial firm of Milliman & Robertson provided a letter to the Department stating that the Company's losses were considered in the loss reserves of First American Title Insurance Company.



## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2002, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements" that follow the financial statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial as to their effect on the financial statements, and therefore were communicated to the Company and noted in the workpapers for each individual Annual Statement item.

**ASSETS**  
**As of December 31, 2002**

	<u>Ledger &amp; Non-</u> <u>Ledger Assets</u>	<u>Assets</u> <u>Non-Admitted</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds (Note 1)	\$ 0		\$ 0
Common stocks (Note 2)	392,135		392,135
Cash and short-term investments (Note 3)	3,727,899		3,727,899
Title Plants	555,000		555,000
Premiums and fees receivable	704,981	628,253	76,728
Federal income tax recoverable	37,665	29,307	8,358
Electronic data processing equipment	645	645	0
Investment income due and accrued	2,492		2,492
Receivable from affiliates	157,631	157,631	0
Other assets nonadmitted	<u>16,515</u>	<u>16,515</u>	<u>0</u>
<b>Total Assets</b>	<u><u>\$ 5,594,963</u></u>	<u><u>\$ 832,351</u></u>	<u><u>\$ 4,762,612</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Statutory premium reserve	\$ 315,330
Other expenses	48,090
Taxes, licenses and fees due or accrued	26,755
Federal and foreign income taxes	540,287
Payable to parent, subsidiaries and affiliates	<u>65,810</u>
<b>Total Liabilities</b>	<u><u>\$ 996,272</u></u>
Common capital stock	\$ 1,000,000
Gross paid in and contributed surplus	1,130,796
Unassigned funds (surplus)	<u>1,635,545</u>
<b>Surplus As Regards Policyholders</b>	<u><u>\$ 3,766,341</u></u>
<b>Total Liabilities and Surplus</b>	<u><u>\$ 4,762,613</u></u>

## STATEMENT OF INCOME

	<u>Current Year</u>
Title insurance premiums earned	\$ 1,144,581
Net investment income	<u>161,303</u>
<b>Total Income</b>	\$ 1,305,884
Operating expenses	<u>\$ 800,416</u>
<b>Total Expenses</b>	\$ 800,416
Net income before federal income taxes	\$ 505,468
Federal income taxes incurred	<u>177,069</u>
<b>2002 Net Income</b>	<u><u>\$ 328,399</u></u>
Examination Changes	<u>0</u>
<b>Restated 2002 Net Income</b>	<u><u>\$ 328,399</u></u>

## CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2001	\$ 3,476,475
Net income or (loss)	328,399
Change in net deferred income tax	(6,138)
Change in nonadmitted assets	(35,465)
Write-ins for gains and losses in surplus	(7,703)
Examination changes (Note 3)	<u>10,773</u>
Change in surplus as regards policyholders	<u>\$ 289,866</u>
<b>Surplus as regards policyholders, December 31, 2002</b>	<u><u>\$ 3,766,341</u></u>

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 (Bonds)**

The total balance of \$515,811 was reclassified to Cash and Short-term Investments. The US Treasury note that comprised this account was acquired on November 4, 2002 with a maturity date of October 31, 2003. Because there was less than one year remaining to maturity when the investment was acquired, the Accounting Practices and Procedures manual requires the investment to be classified as a short-term investment.

### **Note 2 (Common Stocks)**

The balance of common stocks was increased by \$34,010 because of a reclassification from Cash and Short-term Investments. The Company owned a mutual fund with a balance of \$34,010 as of December 31, 2002. Originally, this investment was shown as cash. However, the Accounting Practices and Procedures manual requires mutual funds (except certain exempt funds which this particular fund was not) to be shown as common stocks.

### **Note 3 (Cash and Short-term Investments)**

The balance of the Cash and Short-term Investments was increased by \$492,574. This was the cumulative effect of the previously mentioned reclassifications and the discovery of a small error in a bank reconciliation. The reclassification from Bonds and the error in the bank reconciliation increased the account by \$515,811 and \$10,773, respectively. The reclassification to Common Stocks reduced the account by \$34,010.

## EXAMINATION CHANGES

Total Capital and Surplus Per Company, December 31, 2002:

Common Capital Stock	\$1,000,000
Gross Paid In and Contributed Surplus	1,130,796
Unassigned Funds	<u>1,624,771</u>

<b>Total Capital and Surplus:</b>	<b><u>\$3,755,567</u></b>
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	<u>Increase In Surplus</u>	<u>Decrease In Surplus</u>
Bonds (Note 1)	\$0	\$0
Common Stocks (Note 2)	\$0	\$0
Cash and Short-term Investments (Note 3)	\$10,773	\$0
Net Change		<u>\$10,773</u>

Total Capital and Surplus Per Examination, December 31, 2002:

Common Capital Stock	\$1,000,000
Gross Paid In and Contributed Surplus	1,130,796
Unassigned Funds	<u>1,635,544</u>

<b>Total Capital and Surplus:</b>	<b><u>\$3,766,340</u></b>
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## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### Dividends

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It is recommended that the board of directors revise its resolution on dividend payments to ensure compliance with statutes requiring prior written approval being received from the Director of the Missouri Department of Insurance.

### Corporate Records

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It is recommended that the Company comply with its bylaws regarding the annual stockholder meeting date and maintaining the prescribed number of vice presidents. The bylaws state that the annual stockholder meeting will be held in April while the current practice is to hold the meeting in September. The bylaws also limit the number of vice presidents to two while the Company presently has eight.

### Investment Consulting Agreement

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It is recommended that the Company obtain a custodial agreement with Pacific American Securities, LLC. That agreement along with the Investment Consulting Agreement with First American Capital Management, Inc. should be filed with the Missouri Department of Insurance in accordance with Section 382.110 RSMo.

### Lease Agreement

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The Company had not filed its lease agreement with the Missouri Department of Insurance. It is recommended that the agreement be filed in accordance with Section 382.110 RSMo.

It is recommended that the Company take action to ensure the Annual Statement is completed accurately. It is also recommended that the Company settle its intercompany balances in a timely manner. The federal income tax payable balances for 1998 and 1999 were not settled until May, 2003. In addition, the payable to the Company's parent at December 31, 2002, had not been settled as of the date of this report.

#### **SUBSEQUENT EVENTS**

None

## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Land Title Insurance Company of St. Louis during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri) ) ss  
County of Cole )

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Robert P. Jordan, CFE  
Examiner-in-Charge  
Missouri Department of Insurance

Sworn to and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

My commission expires:

Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARE  
Audit Manager, St. Louis  
Missouri Department of Insurance  
Midwestern Zone, NAIC